



# PREVENTIVE LAW SERIES

# AUTOMOBILE

# SERVICE CONTRACTS



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Buying a car? You may also be asked by a dealer to buy an auto service contract to help protect against unexpected, costly repairs. While it may sound like a good idea, don't buy in until you understand both the terms of the contract and who is responsible for providing the coverage.

## THE AUTO SERVICE CONTRACT

A service contract is a promise by a dealer to perform certain repairs or services. Service contracts are sometimes called "extended warranties," but unlike regular warranties, service contracts cost extra and are generally not included in the original price of automobiles.

## SHOULD I BUY AN AUTO SERVICE CONTRACT?

Before deciding whether to buy an auto service contract, you should consider several factors:

1. **Does the service contract duplicate any warranty coverage?** Compare the service contract with the manufacturer's warranty before you buy. If the service contract duplicates your warranty coverage, then there is no need to purchase it. New cars come with a manufacturer's warranty and even some used cars may come with some type of limited coverage.
2. **Who backs the service contract?** Ask who performs or pays for repairs under the terms of the service contract. It may be the manufacturer, the dealer, or an independent company. Many service contracts are actually handled by independent companies called administrators. Administrators act as claims adjusters, authorizing the payment of claims to any repair shop on a pre-approved list under the contract. If you have a dispute over whether a claim should be paid, you will have to deal with the administrator. Learn about the reputation of the dealer and the administrator. Try to determine whether they have the financial resources to meet their contractual obligations. Get a reliability report from the Better Business Bureau on the company from whom you are buying the contract (the dealership) as well as on the company that would back the contract (the administrator).
3. **How much does the auto service contract cost?** Usually, the price of the service contract is based on the car make, model, condition (new or used), coverage, and length of contract and its overall repair history for that class of cars. In addition to the initial charge, you may need to pay a deductible each time your car is serviced or repaired. You may also need to pay transfer or cancellation fees if you sell your car or end the contract.
4. **What is covered and not covered?** Few auto service contracts cover all repairs. Read the actual contract carefully. Even common repairs for parts such as brakes and clutches are generally not included in service contracts. **If an item is not listed, assume it is not covered.** Also, be aware of absolute exclusions that deny coverage for any reason. For example, if the contract specifies that only mechanical breakdowns will be covered, problems caused by normal wear and tear may be excluded. Finally, you may not have full protection even for parts that are covered in the contract. Companies may use a depreciation factor and pay only partial repair or replacement costs depending on your car's mileage.

5. **How are claims handled?** When your car needs to be repaired or serviced, you may be able to choose among several service dealers. Or, you may be required to return the vehicle to the selling dealer for service. That could be inconvenient if you bought the car from a dealership in another town. Also, find out if your car will be covered if it breaks down while you're using it on a trip or if you take it when you move out of town. Some auto service contract companies and dealers offer service only in specific geographical areas.
6. **What are your responsibilities?** Under the contract, you may have to follow all the manufacturer's recommendations for routine maintenance. Failure to do so could void the contract. To prove you have maintained the car properly, keep detailed records, including receipts. You may also have to give notice in writing to the dealer or get permission before you can get the repair done.

**IF YOU ARE TOLD YOU MUST PURCHASE AN AUTO SERVICE CONTRACT TO QUALIFY FOR FINANCING, CONTACT THE LENDER YOURSELF TO FIND OUT IF THIS IS TRUE!**

#### **LEGAL ASSISTANCE SERVICES AVAILABLE AT 32<sup>ND</sup> STREET AND NASNI**

A legal assistance attorney is available by appointment Monday through Thursday from 0800 - 1100 and 1300 - 1500, and Friday from 0900 - 1045. Powers of attorney and notaries are available Monday through Friday at the same times. For more information, please contact the Legal Assistance Office, located in Building 56, 32nd Street Naval Station, San Diego CA, by telephone at (619) 556-2211, or our office at Naval Air Station North Island – Coronado, Bldg 318 – Second Deck, above the Fleet and Family Support Center, Saufley Road, by telephone at (619) 545-6437.

#### **RESOURCES**

**Federal Trade Commission:** (877) FTC-HELP; [www.consumer.ftc.gov/features/feature-0009-military-families](http://www.consumer.ftc.gov/features/feature-0009-military-families)

- Consumer Information: [www.consumer.ftc.gov](http://www.consumer.ftc.gov); (877) FTC-HELP
- File a Consumer Complaint: [www.ftccomplaintassistant.gov](http://www.ftccomplaintassistant.gov)

**California Department of Consumer Affairs:** (800) 952-5210; [www.dca.ca.gov](http://www.dca.ca.gov)

**California Department of Motor Vehicles:** (800) 777-0133; [www.dmv.ca.gov](http://www.dmv.ca.gov)

**Better Business Bureau San Diego Field Office:** (858) 496-213; [www.sandiego.bbb.org](http://www.sandiego.bbb.org)

**National Automobile Dealers Association:** [www.nada.org](http://www.nada.org)

**Navy AutoSource:** (877) 696-2892; [www.navyautosource.com](http://www.navyautosource.com)

**Kelley Blue Book:** [www.kbb.com](http://www.kbb.com)